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August 17, 2000

To: Council Members

From: Doug Marker
Senior Policy Coordinator

Subject: Analysis of CBFWA Draft Annual Implementation Work Plan for FY 2001

The Columbia Basin Fish and Wildlife Authority (CBFWA) has recommended budgets for ongoing projects in the Fish and Wildlife Program for Fiscal Year 2001. The Council must now forward to the Bonneville Power Administration its recommendations to adopt or revise CBFWA's draft project budget.

We are scheduling a briefing for the Fish and Wildlife Committee on August 29th with an opportunity for Bonneville, CBFWA and other interested parties to comment. The Council needs to complete final recommendations to Bonneville at its meeting on September 19-20 so that project renewals can begin when Fiscal Year 2001 begins on October 1.

Description of FY 2001 renewal process

In February the Council started an interim renewal process for *ongoing projects* in the Program throughout the entire basin. This process establishes budgets for all projects previously approved by the Council in FY 2001. At the same time, the Council is conducting a more detailed review, using the ISRP, for a smaller subset of projects in specific provinces in the "rolling provincial review process." The rolling provincial review process for FY 2001 is underway for subbasins in the Columbia Gorge and Intermountain provinces. The Mountain Columbia process is also underway, but it will lead to recommendations for FY 2002.

This FY 2001 renewal process is limited to review and approval of budgets for ongoing projects. The provincial review provides the independent scientific review of projects required by the Power Act. Again, the "rolling review" will cover all of the provinces within three years, and then begin the cycle again. Limiting ISRP review to a few provinces per year permits a more in-depth review of projects, but at the same time,

necessitates the yearly ongoing renewal process discussed here to track budgets for projects that are not up for ISRP review.

Project sponsors submitted budgets for their ongoing work on May 1, 2000. This is for work within the scope of proposals approved by the Council in its FY 2000 recommendations (or before). These proposed budgets were referred to CBFWA for review by subregional teams in May and June. CBFWA's subregional project review teams reviewed the proposed tasks for each project, recommended deferral of tasks they identified as new work (that which was determined to be outside of the Council's FY 2000 approval) and confirmed budget recommendations for each project.

Elements for Council decision

The scope of the Council's decision for this renewal process is primarily to approve initial project budgets. CBFWA's recommendations assume the availability of Bonneville funds above the \$127 million established by Bonneville's fish and wildlife funding agreement. The Council must reconcile CBFWA's recommendations with available funds in order to present Bonneville with a balanced budget recommendation.

The Council may accept CBFWA's recommendations to revise the proposed scope of work for projects or make its own project funding recommendations. Project sponsors or Bonneville may ask the Council to revise CBFWA's recommended budgets. We are asking for comment on CBFWA's recommendations by August 31.

Finally, this renewal process is limited to ongoing work. In some cases, project sponsors may propose to expand the scope of existing work or initiate completely new work. The Council's guidance for this renewal process was that new work should generally be deferred to the provincial review process. The exception was for continued progress on production projects in the Council's "three-step" review. CBFWA's review identified new tasks that it recommends be deferred. The Council staff may identify other proposed work that the Council should consider deferring for funding.

In general, the CBFWA recommendations are the base reference for Bonneville's start of year budget. Unless the Council states otherwise, CBFWA's individual project budgets and scopes of work are what Bonneville will implement.

Summary of CBFWA recommendations

CBFWA's recommendations are published in its *FY 2001 Draft Annual Implementation Work Plan Ongoing Projects*, July 14, 2001. The recommendations detail CBFWA's assumptions for the amount of money available for project funding in FY 2001 and its allocation of those funds to individual projects.

Assumption of available funds:

CBFWA calculates that about \$143 million is available to fund projects in FY 2001. Bonneville's funding commitment in this last year of its funding Memorandum of Agreement is \$127 million plus interest on funds unspent to date. Bonneville estimates that it will provide \$1.7 million in interest for FY 2001. To that 128.7 million in new FY 2001 funds, CBFWA allocates nearly \$10 million from "placeholder" accounts in the FY 2000 budget. CBFWA also assumes that Bonneville can withdraw \$5 million from open project contracts and reallocate those funds to FY 2001 projects. Attachment 1 is a summary table of CBFWA's budget assumptions.

I am meeting with Bonneville staff next week to review these assumptions. We are also asking for Bonneville's review of unspent project balances that can be reallocated to augment the FY 2001 budget. I will report the status of these issues to the Fish and Wildlife Committee on August 29.

Allocation to ongoing projects

Virtually all funds available to the direct program under Bonneville's fish funding agreement are committed to ongoing projects. This leaves no funding available to initiate new work in FY 2001 unless the Council reduces ongoing project budgets or Bonneville commits additional funds to the direct program. This is most immediately an issue for the provincial reviews in the Columbia Gorge and the Intermountain provinces because the Council will be considering new proposals for work in those provinces this fall. Assuming for planning purposes no additional commitment of funds by Bonneville, when the Council considers proposals from the provincial reviews, it can decide to initiate new work after FY 2001 or revisit the priority of funding for ongoing work.

Mark Fritsch is completing a review of the recommended budgets for production projects. He is comparing the proposed work of those projects with their status in the "Three-Step" review. In some cases, project sponsors may have budgeted for construction or operating funds that they are not likely to be able to use in FY 2001. In such cases, we may ask the Council to consider reallocating those funds to be available for other priorities in FY 2001.

While CBFWA's review identified some proposed work as new or expanded scope, some projects have significantly larger budgets proposed for FY 2001 than were approved in FY 2000. If we need to recommend cuts in project funding in order to recommend a balanced budget, we will look at those project increases first.

Issues for resolution in Council recommendations to Bonneville

This is an initial list of issues I think must be reviewed and addressed in the Council's recommendations for the FY 2001 work plan.

Funding for Bonneville technical support projects

CBFWA recommends no funding for several projects which Bonneville required be funded in FY 2000 (the so-called “non-discretionary” projects). These projects provide technical support to Bonneville beyond the functions of Bonneville’s staff. The proposed budget for these projects total over \$2 million. Bonneville needs to inform the Council of its intention to continue funding for these projects absent CBFWA support. Last year the Council took no position on these projects and Bonneville funded them. If Bonneville intends to fund these projects, the Council needs to recommend compensating reductions in other projects proposed in the CBFWA package.

Assumption for \$5 million from outstanding project contracts

CBFWA based its budget on the assumption that Bonneville will be able to reduce contract commitments to existing projects by \$5 million. When Bonneville issues a contract for projects, the full amount of the contract is considered to be “obligated” and is reserved for that project through the life of the contract. Bonneville is reviewing outstanding contracts where the work has been substantially completed to determine if reserved funds can be released to allocate to other projects. Bonneville is not likely to identify \$5 million in such funds before the Council makes its funding recommendations in September. Council staff and Bonneville will consult on options for assuming these funds in the FY 2001 budget. Alternatively, the Council must recommend compensating reductions in CBFWA’s project budgets of up to \$5 million.

Fiscal accountability and project tracking requirements

Last year the Council asked Bonneville to adopt a strategy for improving fiscal accountability in the management of larger projects. This strategy was to define separate budgets for the “phases” of major projects (planning and design, construction and implementation, operation and maintenance, and monitoring and evaluation). Doing so allows closer monitoring of actual project costs compared to their original budget and also to help the region understand near-term and long-term program costs. Bonneville has designed its budget management systems to support this fiscal accountability strategy. Project sponsors were asked to submit their renewal proposals in this format. They have done so and added more detail on costs by objective and task.

With these budget definitions in hand, and Bonneville poised to manage projects in this manner, the staff presumes that the Council intends to maintain its support for managing project budgets more closely by phase. This is a different way of managing the program than has been the practice in the past. The staff will draft guidance reaffirming the Council’s support for this management standard and proposing a staff-level work group to monitor its implementation and raise any significant issues back to the Council.

Dispose of outstanding placeholders

The Council should be aware that CBFWA based its budget recommendations on the reallocation of funds previously reserved in specific “placeholder” accounts. These placeholders were defined in previous funding decisions. CBFWA reasons that, in this last year of Bonneville’s fish and wildlife funding agreement, uncommitted funds should be committed to projects.

These placeholders include the balance remaining in the reserve for implementing reasonable and prudent alternatives from the 1994 Biological Opinion for the federal hydropower system. That balance is \$2.6 million. CBFWA also proposes to use the remaining balance in the “contingency/inflation” reserve remaining from the beginning of the fish funding agreement. That balance is \$1.9 million.

Fully committing these placeholder accounts would leave no remaining unallocated funds in FY 2001 for new National Marine Fisheries Service biological opinion requirements or for emergencies such as project damages from flood or fire.

CBFWA proposes to reallocate two remaining Council-designated placeholders. These include:

- Contract audits (\$50,000) remaining from Fiscal Year 1999 which the Council proposed be reserved for an independent audit of Bonneville’s responses to ISRP concerns about individual project design. The Council did not seek such an audit.
- Program analysis placeholder (\$415,656) which had been identified in Council deliberations for transition from the PATH process to new regional analytical needs. The Council did not adopt specific guidance in its final decision for FY 2001, but this placeholder was established pending further Council discussion.

Bonneville commitment of additional funds for FY 2001

As discussed above, the CBFWA FY 2001 ongoing projects draft workplan demonstrates that all or nearly all funds available for FY 2001 under the current federal funding agreement will need to be committed to ongoing projects. This leaves no funding available to initiate new work in the provinces currently participating in the FY 2001 rolling provincial review (Columbia Gorge and Inter-Mountain) even if CBFWA’s assumptions regarding ways to augment the base \$127 million budget all prove to be correct. This also leaves no funding for “early action” projects within the existing direct program budget. The Council may need to consider, as a matter of policy, whether or not to recommend to Bonneville that additional funds should be made available for FY 2001 and under what conditions.

Attachment: CBFWA budget assumptions